SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1915

No. [redacted] 142

DEFOREST RADIO TELEPHONE & TELEGRAPH COMPANY, APPELLANT

against

THE UNITED STATES

BRIEF FOR APPELLANT

SAMUEL E. DARBY
Solicitor for Appellant

Appeal Printing Company, 24 Vesey Street, New York City

INDEX TO POINTS.

INDEX TO CASES.

Supreme Court of the United States

No. 549,

October Term, 1925.

DeForest Radio Telephone & Telegraph Company,
Appellant,

against

The United States.

BRIEF FOR APPELLANT.

Statement.

This is an appeal to the Supreme Court of the United States from a judgment of the Court of Claims, dated October 28, 1924 (p. 12, Rec.), sustaining a demurrer to an amended petition of the DeForest Radio Telephone & Telegraph Company, a Delaware Corporation (p. 1, Rec.), filed in the said Court of Claims against the United States in a suit to obtain compensation for the use of patented inventions by the United States during the recent World War.

The suit was filed pursuant to the provisions of the Act of Congress approved June 25, 1910, entitled "An Act to Provide Additional Protection for Owners of Patents of the United States and for Other Purposes" as amended by the Act of July 1, 1918, entitled "An Act Making Appropriations for the Naval Service for the Fiscal Year Ending June 30, 1919, and for Other Purposes."

The original petition filed by the DeForest Company was amended to cut down the number of patents sued on and otherwise to restrict the scope of petitioner's claims and to amplify the statement of facts upon which the claim is based.

The United States demurred to the amended petition (p. 11, Rec.) upon the following grounds:

(1) That the amended petition does not state a cause of action against the United States.

(2) That the amended petition does not state a cause of action in favor of petitioner.

(3) That the amended petition does not state a cause of action for patent infringement nor any cause of action based upon a contract, express or implied, whereby the United States agreed to compensate petitioner for the use of the alleged inventions.

(4) That the amended petition shows on its face that the alleged claim against the United States is an unliquidated claim, and that any right in petitioner to recover said alleged claim from the United States arose by assignment.

The Court of Claims sustained the demurrer on the ground that the petition did not state a cause of action against the United States, holding in effect that the said petition on its face showed that the United States had been granted a license to use the patented invention sued on, prior to the filing of said petition by the DeForest Radio Telephone & Telegraph Company, by the American Telephone & Telegraph Company, a New York corporation, which Company held such rights under said patents as gave it authority to grant such a license.

The Undisputed Facts Set Forth in the Petition.

The Government does not deny the facts pleaded in the petition for, as stated in the brief in behalf of the Government before the Court of Claims:

> "The Government does not deny the *Facts* pleaded in the petition except such as go to the *amount* of the recovery; for the patents in suit have been sustained against attack in other Federal courts and have been held by said courts to cover the same devices as those upon which the claim here is based. If therefore the demurrer is sustained it will dispose of the case entirely; if it is overruled it will leave nothing to be determined except the *amount* of compensation to be awarded."

It follows, therefore, that if the action of the Court of Claims sustaining the demurrer in this case is overruled by this court, the sole question to be determined in subsequent proceedings is the "amount" of compensation to be paid the petitioner.

The undisputed facts as presented by the petition briefly stated are as follows:

The petitioner owned by assignment certain patented inventions in (or used in the production of) the so-called "vacuum tubes" or "audions" used in radio communication. On March 16, 1917, the petitioner executed and delivered to the Western Electric Company, a New York corporation, an instrument in writing, which instrument was attached to the petition, and which granted to the said Western Electric Company certain rights under said patents in question. On May 24, 1917, the said Western Electric Company assigned and conveyed to the American Telephone & Telegraph Company, also a New York corporation, every right, title and interest which it had obtained or was entitled to under said instrument and agreement of March 16, 1917.

Subsequent to July 1, 1918, the United States gave orders to the General Electric Company, a New York corporation, and to the Moorhead Laboratories, Inc., a corporation of California, to manufacture for its use "audions" or "vacuum tubes" embodying said inventions in suit and these audions or vacuum tubes were manufactured by these concerns and delivered to and used by the United States.

Prior to the giving of these orders for the manufacture of said audions to the General Electric Company and the Moorhead Laboratories, the United States advised the American Telephone & Telegraph Company, that then being engaged in war, it was desired to have large numbers of these audions manufactured promptly for its use by the General Electric Company and others. The American Telephone & Telegraph Company thereupon advised the United States by writing to the Chief Signal Officer of the Army on or about September 21, 1917, to the effect that it would not do anything to interfere with the immediate manufacture of said audions for the United States by the General Electric Company and other manufacturers provided it were understood and agreed that the said American Telephone & Telegraph Company waived none of its claims under any patents or patent rights owned by it, on account of said manufacture, and that all claims under patent rights and all patent questions were reserved and later investigated and settled by the United States.

This plan was accepted by the United States, and the orders as aforesaid for said audions were given by the United States to the said General Electric Company and Moorhead Laboratories, Inc., and the audions were delivered to the United States in pursuance of said plan.

In addition to the action taken by the American Telephone & Telegraph Company, as stated above, and for the purpose of assisting the United States to obtain the

said audions promptly, the American Telephone & Telegraph Company supplied information, drawings, and blue prints to the General Electric Company and gave other aid so that the audions might be made and delivered promptly for use in the war.

Subsequent to the manufacture and delivery of these audions to the United States in the manner set forth above, and *subsequent to the filing of the petition in this case by the DeForest Radio Telephone & Telegraph Company*, certain negotiations were had between the United States and the American Telephone & Telegraph Company which resulted in the execution of a release to the United States by the American Telephone & Telegraph Company, which release waived and released all claims it had against the United States and the manufacturers acting under its orders, for compensation for the manufacture and use of all apparatus covered by the two patents in suit and said waiver was stated to include all claims which have arisen or which might thereafter arise for royalties, damages, profits or compensation for infringement of any or all Letters Patent owned or controlled by the American Telephone & Telegraph Company.

The petition avers that the two patents in suit did not, as the result of the making and delivery of the instrument of March 16, 1917, become owned or controlled by the American Telephone & Telegraph Company, and that the waiver and settlement by the American Telephone & Telegraph Company, subsequent to the filing of the original petition of the petitioner, did not and does not deprive the petitioner of the rights in and to said Letters Patent and for recovery for the infringement thereof; and that notwithstanding the facts above set forth, the use of the said audions by the United States and the manufacture

thereof by the General Electric Company and Moorhead Laboratories was in infringement of the patents and the rights of the petitioner in said patents.

The Right of Petitioner to Maintain this Suit.

Before taking up the contentions of petitioner that the Court of Claims committed error in sustaining the demurrer on the grounds stated in its opinion, it is thought best to call attention to the agreement attached to the petition, which agreement defines the status of the petitioner and the American Telephone & Telegraph Company with respect to the patents in suit as well as the rights of the petitioner to maintain this suit against the United States.

The license agreement of March 16, 1917, is on its face perfectly clear, both as to the intent of the parties and as to the rights conveyed by the DeForest Company to the Telephone Company. In the first place, the document calls itself a license, and it is not questioned and is admitted by the Government that it is a mere license. It is not an exclusive license, as a consideration of the granting clause will clearly show. The granting clause of the agreement states:

> "The said license is granted for all transferable rights of said DeForest Company of any kind or nature whatsoever in said inventions, patents and applications, except the rights hereinafter expressly reserved to itself by the DeForest Company. The said license granted * * * is exclusive *except for the rights expressly reserved herein by the DeForest Company.*" (Italics ours.)

It will be seen by this granting clause that the DeForest Company granted a license which was exclusive as against every one in the world *except the DeForest Company.* Therefore, it is clear that this document is not an exclu-

sive license as it is a fundamental principle of patent law that a license, to be exclusive, must of necessity exclude the licensor (*Waterman* v. *McKenzie*, 138 U. S., 252, 256), and this is what the DeForest Company did *not* do. What it expressly *did* do was to reserve rights which it acquired with the grant of the Letters Patent. These rights, therefore, it never parted with, for it only transferred to the Telephone Company "all transferable rights" it possessed "*except* the rights" it expressly reserved to itself. (*Jockmus* v. *Loudon, et al.*, 265 Fed. Rep., 12, Circuit Court of Appeals, Second Circuit.)

At the outset, therefore, we see that the Telephone Company is merely a non-exclusive licensee and not an exclusive licensee because the DeForest Company did not exclude itself from certain rights in its patents.

The rights which the DeForest Company secured with the grant of the Letters Patent in suit and never parted with by virtue of its agreement are divided into two heads—operative rights, forming the substance of Article III of the agreement, and rights of exclusion, forming the subject matter of Article VII of the Agreement.

Taking up the first of these (Article III), it is seen that the DeForest Company retained:

(1) Non-exclusive, assignable rights to make, use and sell for a particular purpose under a group of patents, of which the patents in suit were included.
(2) Exclusive, assignable rights (excluding even the Western Electric and Telephone Companies), for a particular purpose, of another group of patents, among which the patents in suit are not included.
(3) An exclusive right to grant a license under another group of patents (in which the patents here in suit are not included).
(4) Manufacture, use and sale rights with respect to radio communication (under the patents in suit).

The rights under this last division are specifically defined in Paragraphs (a) to (g), inclusive. Paragraph (a) includes the right "To make for and sell to the United States Government for its use."

It will be seen, therefore, that the DeForest Company having acquired with the grant of the Letters Patent in suit, the *exclusive* right to make for and sell to the United States Government and in its license of March 16, 1917, *reserved to itself* a non-exclusive right to make for and sell to the United States Government, for use by the Government, the only other question to be determined in respect to this agreement is whether by its terms the DeForest Company parted with its right of excluding others from making and selling to the United States Government apparatus embodying the inventions and patents in suit. The complete answer to this question is found in the agreement in Article VII. This paragraph states:

> "It is understood and agreed that the Western Electric Company, its successors, legal representatives or assigns, and the DeForest Company may, respectively, institute and conduct suits against others for infringement of any patents within the fields in which it possesses rights, but all such suits shall be conducted at the expense of the party bringing them, which party shall be entitled to retain any judgment recovered in any such suits."

It is not and cannot be disputed that by virtue of this agreement the DeForest Company possessed the right to make and sell apparatus embodying the invention of the patents in suit to the Government, and it is believed that it also cannot be disputed that by expressly retaining and reserving to itself the right to exclusion it has the right to maintain this suit as an invasion of the field in which it possessed rights.

The Government in the Court of Claims attempted in

its argument and brief to force a construction of the agreement of March 16, 1917, to the effect that the DeForest Company *acquired* its right of exclusion from its licensee (Western Electric Company and the Telephone Company). This was an erroneous theory because, as a matter of law and fact, the DeForest Company's licensee could not grant such right, for the licensee never acquired possession of the right so as to be able to transfer it either to the DeForest Company or anyone else.

The Alleged License Granted by the American Telephone and Telegraph Company to the United States under the Patents in Suit.

Apparently, the sole ground for the sustaining of the demurrer by the Court of Claims was the assumption that under the averments of the petition there was a licensing of the Government on the part of the American Telephone & Telegraph Company to manufacture and use the audions constructed in accordance with the patents in suit.

Paragraph Thirteenth of the petition recites that:

> "Prior to the giving of said orders for the manufacture of said audions to General Electric Company and said Moorhead Laboratories, Inc., respectively, the United States informed said American Telephone and Telegraph Company that being then engaged in war it desired to have large numbers of said audions manufactured promptly for it by the said General Electric Company and others, whereupon the said American Telephone and Telegraph Company advised the United States, by writing to the Chief Signal Officer of the Army, on or about September 21, 1917, to the effect that it would not do anything to interfere with the immediate manufacture of said audions for the United States by said General Electric Company and other manu-

> facturers, *provided it were understood and agreed that said American Telephone and Telegraph Company waived none of its claims under any patents or patent rights owned by it on account of said manufacture, and that all claims under patent rights and all patent questions be reserved and later investigated and settled by the United States.*"

The Court of Claims in sustaining the demurrer determined that the recitation of the facts as contained in the foregoing paragraph of the petition spelled out a license by the American Telephone & Telegraph Company to the Government.

It is urged by the petitioner that the facts recited in the paragraph of the petition do not spell out a license of any kind and that in consequence the Court of Claims was in error in so finding.

It is first necessary to ascertain what constitutes a license under a patent. We have no quarrel with respect to the *form of license*, that it may be either expressed or implied, oral or in writing. But it is believed that before the form of license becomes important for consideration, a clear understanding must be had of what in fact constitutes a license.

It is of course fundamental that a license under a patent right is a sufferance. It is further fundamental that a patent right is nothing more nor less than the right of exclusion. This right of exclusion carries with it the right of permission, i. e., the right to permit another to practice the invention. For this permission the owner of the patent may exact any tribute. Likewise, it may be gratuitous. But in every instance the granting of the permission irrespective of the terms on which the permission is granted, constitutes a waiver of the rights secured by the patentee with the issuance of the grant. This is universally spoken of as "waiver of claim" under the pat-

ent. It might be queried what claim is waived. The language is not ambiguous. The word "claim" never refers to the numerical combination of elements which constitutes one or more of the claims of the patent. The "waiver of claim" is invariably employed to mean the waiver of claim for compensation or "waiver of claim" of right of exclusion. We know of no other definition for a patent license and the Court of Claims has given no other definition for a license.

A detailed consideration of Paragraph Thirteenth on which the Court of Claims bases its decision, however, shows that the Telephone Company "waived none of its claims under any patents or patent rights." It is apparent, therefore, that rather than there being a waiver of claim on the part of the Telephone Company, i. e., as licensing, there was an express refusal of waiver, i. e., a refusal to grant a license.

It is very plain that though, for patriotic reasons, the Telephone Company stated: "We will not interfere now during the war, but we refuse to waive our rights" no license has passed. In addition, there being no waiver of rights, no terms of license were mentioned. A situation therefore is raised tantamount to infringement, the Government stating, "to meet a particular exigency, we are going to proceed to infringe your patent." The patentee assumes the position, "We will not interfere with you at the present time (sue you) but we do not waive our claim against you." In both instances, suppose a settlement was never effected or specifically, supposing the Telephone Company and the Government had not been able to arrive at satisfactory terms. What then would have been the situation. Could the Government have successfully contended that by reason of the fact that the Telephone Company refrained from suing the Government for the period of the war, "without waiver of any claim under

its patents" the Government was licensed? It is believed that no such contention for the Government could have succeeded. On the other hand what course would the Telephone Company take? It obviously would sue the Government as an infringer of its patent rights.

There is nothing compulsory upon a patent owner to sue at once for infringement of its patent. Under certain circumstances, it is incumbent upon him, however, to notify the infringer, so that continued infringement is not without notice of adverse patent rights.

It is submitted, therefore, that the facts pleaded in Paragraph Thirteenth of the petition serve the following purposes only:

1. Notification to the Government of patent rights of the Telephone Company.
2. Assurance to the Government that no suit would be filed during the war period to thereby form any source of embarrassment to the Government in its prosecution of the war; the Telephone Company would take no action which would necessitate drawing from war work one or more men to investigate and handle a relatively petty commercial matter.
3. A notice that its failure to sue was not to be construed as a license; and
4. An implied notice that at the termination of the war the Telephone Company would expect compensaation and would take such action as was necessary to secure compensation.

This is all that was offered to the Government. This is all that the Government expected. The offer was not a license, and we submit that it was the direct opposite of a license. The acceptance of the offer by the Government surely could not convert it into a license. These facts the Court of Claims ignored and it is believed that their

failure to consider them is what led to the erroneous conclusion forming the basis of their opinion.

The Court of Claims advances the facts pleaded in Paragraph Fifteenth as supporting the conclusion that a license passed from the Telephone Company to the Government. Paragraph Fifteenth of the petition is as follows:

> "That subsequently to the manufacture of the audions aforesaid and delivery thereof to the United States, and subsequently to the filing of the original petition in suit, negotiations were instituted by and between the United States on the one hand and said American Telephone and Telegraph Company on the other, with the result that said American Telephone and Telegraph Company made, executed and delivered to the United States an instrument in writing expressly vowing and relinquishing all claims, both against the United States and all manufacturers acting under orders of the United States, for compensation for the manufacture and use of all apparatus covered by the two patents aforesaid and said waiver was stated to include all claims which have arisen or which may hereafter arise for royalties, damages, profits or compensation for infringement of any or all Letters Patent owned or controlled by the American Telephone and Telegraph Company, whether expressly recited herein or not, for said manufacture and/or use prior hereto and for the use by the United States occurring hereafter."

The Telephone Company had not previously granted a license to the Government and if the parties had believed there had been a license, there would not have been any necessity for any such negotiations. If the Government had secured, as held by the Court of Claims, a written license what necessity would there have been for the second written license. Contrary to the thought expressed

by the Court of Claims, that the facts pleaded in Paragraph Fifteenth support the conclusion that the Government had acquired a license from the Telephone Company, it is submitted that the facts pleaded in Paragraph Fifteenth make certain that the Government had not acquired a license from the Telephone Company. Having in mind the purpose of the Telephone Company in assuring the Government that it would not interfere with its operations during the war, i. e., to avoid being an obstructionist during the time of need, and having placed itself on record as not waiving its patent rights, and that it was going to insist on its patent rights when the exigencies caused by the war no longer existed, the further action of the Telephone Company to assist the Government, and actually assist in the infringements to thereby benefit the Government, are entirely consistent with the position it had taken. It is for this reason that the "negotiations" at the end of the war were taken up to prevent if possible the Telephone Company from commencing its action for patent infringement, which right it had, expressly did not waive but merely deferred until the end of the war period.

It did not, however, effect the licensing of the Government pursuant to these negotiations until after the petitioner had asserted its claim and commenced the present action.

The Release Executed by the Telephone Company Was After the Filing of the Petition in this Case by the DeForest Company.

The DeForest Company, under the Act of July 1, 1918, filed its petition for the invasion of its rights, and it was not until after that that *negotiations* were instituted by and between the Government on the one hand, and the

American Telephone & Telegraph Company on the other hand, whereby the Telephone Company waived and relinquished all its claims against the United States.

This waiver, or release, or settlement, between the Government and the Telephone Company could in no way affect the rights of the DeForest Company. This is true for two reasons: first, this was a settlement effected between the United States and the Telephone Company on *negotiations started subsequent to the assertion by petitioner of its right to compensation.* In other words, the DeForest Company filed its petition in the Court of Claims asserting its claim, under its legal right so to do as the owner of the DeForest patents and the owner of rights to manufacture and sell to the Government, which had been invaded by the General Electric Company and the Moorhead Laboratories. The Telephone Company could never thereafter take any action which would deprive the DeForest Company of the entire recovery for that infringement, not only because of the contractual relations between the Telephone Company and the DeForest Company (Article VII of the Agreement), but as a matter of law. (*Lalance & Grosjean Mfg. Co. et al.* v. *Haberman Mfg. Co. et al.*, 93 Fed., 197.)

In that case Judge Lacombe said:

> "Upon the precise question now presented, viz., the power of one co-owner to destroy the other's accrued right to damages, the opinion of Romilly, M. R., cited on complainant's brief (*in re* Horsley & Kingston's Patent, L. R., 8, 8 Eq., 475), seems to characterize the proposition quite correctly as 'a violation of the fundamental principles of law, and contrary to natural justice,' defendant's motion to dismiss the bills of complaint are denied."

Furthermore, the settlement effected between the Government and the Telephone Company was a waiver and

quit-claim for compensation "for infringement of any or all Letters Patent *owned or controlled* by the American Telephone & Telegraph Company." The DeForest patents here in suit, as is admitted and not disputed, were not *"owned"* by the Telephone Company and, as is obvious from the foregoing, are not *"controlled"* by the said Telephone Company. Further, Paragraph VII of the agreement states that the party bringing suits "shall retain any judgment recovered in such suits." Obviously, the Telephone Company could not deprive the DeForest Company of the *judgment or its right to a judgment* by a settlement made by the Telephone Company *after the DeForest Company sued for judgment.*

Conclusion.

We respectfully submit:

That the petitioner's amended pleadings set forth a good cause of action against the United States in that it shows on its face:

1. That the DeForest Company owns the patents in suit.
2. That the DeForest Company owns and never parted with the right to make for and sell to the United States Government apparatus embodying the invention of the patents in suit.
3. That the DeForest Company acquired, with the acquisition of the patents, and never parted with, the right to sue an infringer who invaded the field of operation of the DeForest Company of manufacture and sale to the United States Government.
4. That one field of operation of the DeForest Company, i. e., to make and sell to the United States, was invaded by infringing operations of the General Electric Company and Moorhead Laboratories, Inc.

5. That under the Act of June 25, 1910, as amended by the Act of July 1, 1918 (under which the suit is brought), DeForest Company must look to the Government for compensation for the infringing acts of the General Electric Company and Moorhead Laboratories.
6. The arrangement between the Government and The American Telephone & Telegraph Company regarding the patents in suit prior to the filing of this petition did not amount to a licensing of the Government.
7. The waiver and settlement on the part of The American Telephone & Telegraph Company subsequent to the filing of this petition did not and cannot affect the recovery here sought.

In view of these facts the Court of Claims erred in sustaining the demurrer and their judgment entered in this case May 4, 1925, should be reversed.

Respectfully submitted,

SAMUEL E. DARBY,
Solicitor for Applicant.

Dated New York, N. Y., October 17, 1925.